

# CFD BRG - Global New Client/Project Approval Form

## SUBMISSION DETAILS

Name of proposer:	Bill McGahan	Date of BRG meeting:	26-Dec-01
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## CLIENT INFORMATION

Client group/parent co.:	First Cambridge HCI Acquisitions, LL	Parent country:	United States
Market cap (if applicable):	Private	Parent industry sector:	Healthcare
Client name (if different):		Client priority:	Core
Relationship director:	Bill McGahan	Recent UBSW Fees from the Client:	

## PROJECT INFORMATION

Project codename:		Project country:	United States
Project director:	Bill McGahan	Project industry sector:	Healthcare
Project team:	Bill McGahan, Mike Leiser, Rod O'Neil, Phil Puccarelli, Scott Wolkard, Kristen Kummer	Transaction type:	Primary Debt
Project MIS number:	TBD	Other companies involved:	HEALTHSOUTH
Deal timing (mth/yr):	Dec-01	MIS time cost currency:	USD U.S. Dollar
Deal size:	\$82.2 million sr. secured term loan		
Price sensitive:	No		
Is pitch competitive?	No		
Date outcome known (est)	1-Dec-01		

  

	Mon Weeks	MIS Time Cost - USD
MD	0.5	29,000
ED		
D	1.0	21,500
AD	2.0	27,500
E	2.0	20,000
	5.5	98,000

## REVENUE FORECAST (to agree with MIS input)

Billing currency:	USD U.S. Dollar	Deal likelihood :	100%
Currency Unit:	Million	UBSW chance :	100%
Monthly fee (USD Mn):		Combined probability:	100%
Offsettable?	No	Weighted forecast (USD Mn):	900,000.00
Success fee (USD Mn):	900,000.00		
Abort fee (USD Mn):			
Total fee (USD Mn):	900,000.00		
Forecast input into MIS:	Yes		
Fee basis: (Brief description)	<p>At Closing, the Borrower will pay an upfront fee of 100 bps to UBS for its own account on UBS' entire commitment to the facility</p> <p>The Borrower will also pay an annual Agency Fee of \$75,000 to UBS, as Administrative Agent, at closing (loan duration is 12 months)</p>		

## PROJECT DESCRIPTION

In addition to the description, this section should seek to address all issues relevant to the decision being sought, including (eg. reputational issues, potential conflicts, prospects for future business, deal structure, etc.)

- \$82.2 million, 12-month LIBOR-based loan to First Cambridge HCI Acquisitions, LLC, a SPE consisting solely of 14 HEALTHSOUTH properties
- The loan is priced at LIBOR + 175bps resulting in a \$1.030 million make whole
- The loan is 100% guaranteed by HEALTHSOUTH
- Proceeds from the loan will be used to purchase 14 HEALTHSOUTH properties
- Based on annualized 9/30/01 numbers, the properties generate \$120.0 million in revenues and \$42.7 million in EBITDA
- First Cambridge has set the cap rate at 10.5% yielding \$8.4 million in rents resulting in EBITDA/rent coverage of 5.1x
- The loan is essentially a "bridge" to an IPO estimated to be conducted within the first 6-9 months of 2002. UBS Warburg has been identified as the sole bookrunning manager
- UBSW has had multiple discussions with HEALTHSOUTH regarding the refinancing of HRC's \$1.75 billion Senior Credit Facility to be

Opportunities for cross product selling to the client in this project (eg. Cross selling of financing products, FX, treasury products, details of internal discussion which have taken place to date)

## OTHER INFORMATION

Conflict clearance note sent(1)(2)(3):	No	Covered by UBSW Equity Research Analyst:	No
Positive clearance received from Compliance?	No	Have you notified/cleared the transaction with:	
If No, why was Compliance not notified?:		ECMG	No
Cleared with industry sector head? (3):	Yes	Please state contact name/s	
Please state contact name/s	Benjamin Lorello	DCMG (4)	Yes
Cleared with country team? (3):	Yes	Equity Research (4)	No
If No, why was not cleared with a Country Team?:		Treasury Products (4)	No
If it is a European transaction, is the transaction within guidelines (5) or staffed by the Mid Market Group or CFD Switzerland?:		Credit Risk informed?	Yes
If No, which member(s) of the M&A Steering Group approved the transaction?	#N/A	Have you complied with all relevant white book procedures?	Yes
Financial Sponsor group consulted?	Not Applicable	Type of BRG meeting:	Weekly

Relevant product group contacts for CFD:

**DCMG** - Andrew Dennis - permanently inside the CFD Chinese Wall

**FX** - NOTE: When a CFD caller contacts the FX contact below about a potential project, the caller should state that they are going to take that individual over the Chinese Wall before providing actual client and project details. The non-CFD person should note their compliance status outside the Chinese Wall

Europe (ex. Switzerland): Leslie Grant and Hai Xin (permanently inside the CFD Chinese Wall) / Mike Sutherland

Switzerland: Martin Wiedman

Americas: Ellen Schubert

Asia Pacific: Sam Cohen

**CREDIT RISK** - Ian Drew

David Bowden - Japan

(1) See C3 of the White Book (2) Should virtually always be 'yes' (3) Mandatory to explain why if 'no' (4) Subject to Chinese Wall (see notes above) (5) Above €500m or €750m for KCT clients.

# Addendum, First Cambridge HCI Acquisitions, LLC

## EXECUTIVE SUMMARY

UBS Warburg will act as Lead Arranger on a 12-month, \$82.2 million senior secured term loan to First Cambridge HCI Acquisition, LLC (HCI) a special purpose entity (the "SPE" or "Borrower"). The SPE is a stand-alone entity with its own corporate governance run by Bill Harlan, President, and 100% owned by Jean-Claude Saada. The SPE has is currently negotiating the purchase of 14 HEALTHSOUTH ("HRC") properties (a diversified mix of properties that collectively produce, for the 9-months ended 9/30/01 annualized, \$120.0 million in revenues and \$42.7 million in EBITDA). HCI intends to enter into a sale-leaseback transaction with HRC for the properties for an estimated purchase price of \$80.0 million. This credit facility will be secured by the lease stream payments owed to the Borrower by HEALTHSOUTH Corporation and 100% guaranteed by HEALTHSOUTH. The properties will be triple-net leased, under one master lease agreement, for fifteen years with the option to extend the lease agreement in annual increments after the initial expiration of the master lease. HRC will also maintain the option to buy back these facilities upon expiration of the initial master lease. The cap rate has been established at 10.5% yielding approximately \$8.4 million in rental income for HCI. UBS will in effect be exposed to HRC credit risk, as HRC will be the tenant of all 14 properties, and HRC is bound by a duly executed Keepwell Agreement. HCI will establish the SPE, consisting of HRC properties, as the platform for its proposed REIT and intends to close additional acquisitions of selected healthcare properties within the first 3-6 months of 2002. HCI intends to establish a total portfolio of approximately 25-30 properties (that produce in excess of \$200 million in revenues and \$60-70 million in EBITDA) within the first 3-6 months of 2002 and simultaneously conduct an Initial Public Offering ("IPO") (for the newly formed REIT) for which UBS Warburg has been identified as the Sole Bookrunning Manager.

The SPE is formed to hold the 14 HRC properties. HCI will acquire additional properties to build upon the 14 properties that will function as anchor properties for the REIT. HCI will acquire an additional 10-15 properties before going public as a REIT in early 2002. The proceeds from the IPO will be used to pay-off the \$82.2 million loan.

## HEALTHSOUTH RATIONALE

- ◆ HEALTHSOUTH has a vested interest in developing a relationship with HCI in order to secure a flexible and expedient "financing" vehicle for future sale-leaseback transactions.
- ◆ In addition, HRC also stands to benefit from a long-term relationship with Cambridge, a leading developer of medical facilities.
- ◆ Finally, HEALTHSOUTH will use the proceeds from the property sale to pay down existing debt - assisting in fulfilling its goal of continuous debt reduction.

## HEALTHSOUTH KEEPWELL AGREEMENT

The HCI Credit Agreement for \$82.2 million will include a Keepwell Agreement in the form of a side letter agreement. HRC will be bound by the Keepwell Agreement in the event of a default and/or foreclosure on any of the 14 properties that are in one master lease. The Agreement will cover the entire loan amount.

 UBS Warburg

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## RELATIONSHIP WITH HCI & HRC

Ben Lorello and Bill McGahan's relationship with Bill Harlan, President of HCI, dates back to Capstone Capital Corporation, a publicly traded healthcare REIT, where Bill Harlan was a member of senior management and Tadd McVay served as CFO (currently treasurer of HEALTHSOUTH)

Ben Lorello and Bill McGahan have maintained a strong and long-standing relationship with HRC for over 15 years. In that time they have completed 33 transactions in a lead role, totaling \$11.6 billion. In the past 12 months alone, UBSW has served as Sole Bookrunning and Lead Manager on three HRC debt offerings totaling approximately \$1.3 billion:

- ◆ \$600 million Senior Notes Offering on September 24, 2001
- ◆ \$375 million Senior Notes Offering on January 25, 2001
- ◆ \$350 million Senior Subordinated Notes on September 20, 2000

***Upcoming Transaction:*** HRC will be refinancing its existing \$1.75 billion Credit Facility in the first three months of 2002 which will be coupled with a corporate finance transaction. UBSW expects a very senior role in both transactions.